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14 September 1967

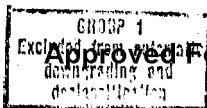
MEMORANDUM FOR: Comptroller, Office of Special Activities

SUBJECT: Checks and Balances within the Office of
Special Activities (OSA) relating to Significant
Contract Overruns or Cost Increases

1. About two and one-half to three years ago OSA was confronted with a rather embarrassing situation concerning information received at Headquarters from a contractor, over a period of several months, relating to significant cost increases in a contract. The information was not digested and processed to the OSA front office in a timely manner and, as a result, the Director of Special Activities was obliged to go hat in hand to the DDS&T and later to the Comptroller, NRO, for extraordinary relief. OSA was castigated for failing to report the unprogrammed significant cost increase in an expedient fashion to the appropriate people, particularly since timely reporting would have enabled the NRO Comptroller to amend his budget during the normal budget cycle. Following the above incident (largely attributable to a comedy of errors, i. e., an "after you Alphonse" routine on the part of variously involved staffs and people within OSA aware of the cost increases) it became readily apparent that the checks and balances believed to be available within OSA to preclude incidents of this type in fact failed to do so. As a result the OSA senior staff was convened and lectured to insure that this would not happen in the future. Programs Staff, the then Comptroller's office, OSA, was charged with taking necessary action to monitor OSA activities to insure that the incident would not be repeated.

2. A recent U-2R case, relating to a significant cost increase forecast by Lockheed, regrettably has followed the same pattern as the one cited in paragraph 1. above. In view of the repetition of this unfortunate incident, it is apparent that our checks and balances remain inadequate. In view of this, the Comptroller, OSA, is directed to review our procedures and come up with suggested actions to plug existing loopholes. It might be a good idea for the Comptroller to convene weekly meetings with the appropriate OSA people from Contracts Management Division, Research & Development and Materiel to ascertain first hand the existence of any

NRO review(s) completed.



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"red flag" items relating to significant unprogrammed cost increases which warrant corrective action or front office attention. The Comptroller should keep the Director and Deputy Director of Special Activities apprised accordingly of significant unprogrammed cost impacts in a timely fashion so that consideration can be given regarding appropriate action necessitated.

3. Please give this entire matter your immediate attention and let me have your recommendations soonest.



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JOHN PARANGOSKY
Deputy Director of Special Activities

DD/SA/JParangosky:mcm(14 Sept 67)

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